



In partnership. With trust.

Zee Entertainment

2QFY19 Result Update

Sector: Media

CMP: ₹ 459

Domestic advertisement to surpass initial estimates

Recommendation: Hold

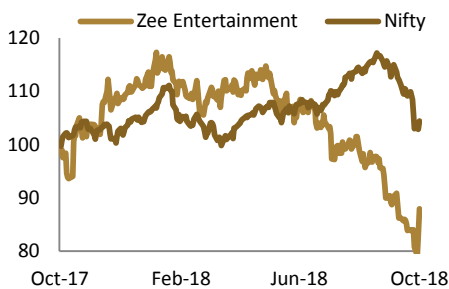
Market statistics

Current stock price (₹)	459
Shares O/S (cr.)	96.0
Mcap (₹ cr)	44,104
52W H/L (₹)	619/410
6m avg. volume	2,389,752
Bloomberg	Z.IN

Shareholding pattern

Promoters	41.62
Domestic Institution	11.13
Foreign Institution	40.77
Non-institution	6.48
of which more than 1%	

ZEEL vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	17.8	19.9	19.8
EPS (₹)	13.2	16.8	19.3
CEPS (₹)	15.1	19.3	22.1
P/E (x)	43.7	27.3	23.8
P/BV (x)	7.3	5.1	4.4
EV/EBITDA (x)	26.2	16.8	13.8
Income growth (%)	3.9	17.0	14.0
EBITDA growth (%)	7.7	22.6	14.7
PAT growth (%)	3.9	27.2	15.1

Zee Entertainment's quarterly numbers were higher-than-our-expectations with 22.7% LTL advertising growth in domestic business while domestic subscription revenue increased 26% on a like-to-like basis. EBITDA margin at 34.2%, higher than our expectations due to strong revenue trajectory. We believe there could be some headwinds like pricing pressure on the bouquet (ex-sports portfolio), coupled with intensified competition. We maintain our Hold rating on the stock.

Advertisement and subscription performance: Zee Entertainment's numbers were higher-than-our-expectations with 22.7% LTL ad growth in domestic business while domestic subscription revenue increased 26% on a LTL basis. Domestic ad revenue grew by 23.3% YoY, with continued improvement in its overall network market share (at 19.9% in Q2FY19 vs 19.2% in Q1FY19), on account of healthy demand across the categories along with favourable base of Q2FY18. The international ad revenue grew by 11.3% YoY, while the comparable international ad revenues (adjusting ad revenues relating to sport business) grew by 14.6% YoY. Overall 21.3% YoY growth in subscription revenue was led by a growth of 26% YoY growth in domestic subscription revenue - aided by (a) early closure of some of the distribution contracts, (b) monetisation of phase-III subscribers and (c) catch-up revenues of last quarter. Revenue from other sales and services increased by 67% YoY, driven by strong box-office performance in the movie Dhadak.

Margin beat estimates: ZEEL's operating profit margin performance was better-than-our-estimates on back of robust operating performance in its traditional business, despite significant investments (adverse impact of more than 300 bps) in contents especially on the digital platform. At 34.2%, EBITDA margin, which improved by 315 bps YoY in Q2FY19. Improved profitability along with 39.4% growth in other income was partially offset by higher depreciation and tax provision expenses, resulted in healthy 32% YoY growth in net profit during the quarter.

Ad revenue continues to be industry-leading, expect subscription revenues to accelerate: The management cited that the ad revenue growth would be lower in 2HFY19 compared to 1HFY19 owing to high-base. However, the ad revenue growth is expected to beat industry growth rate (around 12%). The growth will be led by anticipated high campaigns visibility across the major ad-spenders owing to commencement of the festive season, launch of a new channel in Kerala and expected monetisation of network market share gains. The subscription revenue growth momentum is expected to accelerate on back of gaining traction of ZEE5 amongst viewers, re-set of pricing of phase-III and partnerships with two telecom service providers. Further, the scaling of its digital business (ZEE5) along with recent partnerships with the telcos would also drive both its ad and subscription revenues.

ZEE5: faster subscribers addition, ranked No. 2: Since Apr'18, ZEE5 has been growing at a faster pace reaching monthly active users (MAU) of 41.3mn, with an absolute growth of 190%. ZEE5 users currently spend an average of 31 minutes / day on the platform. The management highlighted that the original content hours would be around 500-600 hours over next 18 months and it hopes the break-even of its digital platform would be in next 3-4 years. The content additions are expected to be higher in H2FY19 compared to H1FY19 (29 original contents now). The management aspires that the revenue from ZEE5 should be at-least 30% of its revenues in next five years.

Valuations and risks. Zee is well positioned to gain from the ongoing digitalization of cable network. The growth in subscription revenue will ensure enough cash flows for Zee to invest in new channels, which will further fuel growth for the medium-to-long term. Zee is however richly priced. We are positive on the business model but believe there could be some headwinds like pricing pressure on the bouquet (ex-sports portfolio), coupled with intensified competition. Hence, we maintain our recommendation on Zee Entertainment at Hold.

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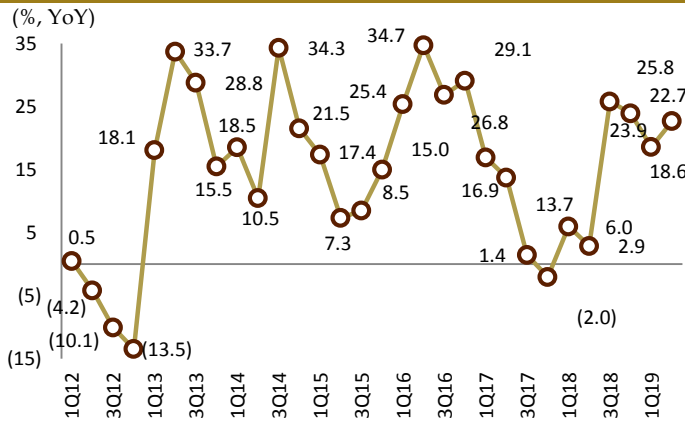


Exhibit 1: Quarterly details

₹ mn	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	Comments
Revenues	15,821	17,720	19,759	11.5	24.9	TV industry advertisement revenue is expected to grow at ~10-12% during CY18E/FY19E
- Operating costs	10,909	12,064	13,001	7.8	19.2	
EBITDA	4,912	5,657	6,758	19.5	37.6	
EBITDA margin (%)	31.0	31.9	34.2	228bps	315bps	Management intends to re-invest in fresh content and maintain ~30% margins over the long-term
- Interest expense	3	53	54	2.8	1,842.9	
- Depreciation	411	576	588	2.1	43.2	
+ Other income, net (incl forex)	2,031	498	589	18.5	(71.0)	
PBT	6,529	5,525	6,704	21.3	2.7	
- Taxes	1,832	2,071	2,624	26.7	43.3	
Effective tax rate (%)	28.1	37.5	39.1	166bps	1,109bps	FY19 effective tax rate would be 33-34%
PAT	4,698	3,454	4,080	18.1	(13.1)	
Minority interests	(12)	(18)	(2)	NA	NA	
Consolidated profits	4,710	3,472	4,082	17.6	(13.3)	
Reported PAT	5,908	3,259	3,862	18.5	(34.6)	

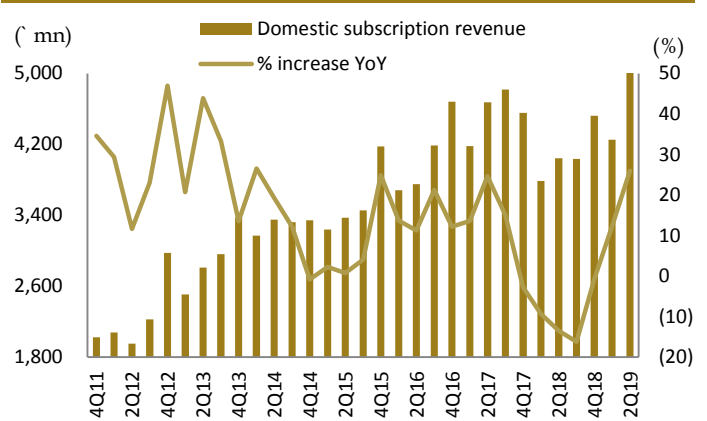
Source: Company, 1Q16, 1Q17 numbers are as per IND-AS

Exhibit 2: Ad revenues were up 22.7% like-to-like basis



Source: Company, Trust

Exhibit 3: Domestic subscription to grow in 15-16% in FY19E



Source: Company, Trust



Zee to gain most incase of relaxation in ad-cap minutes

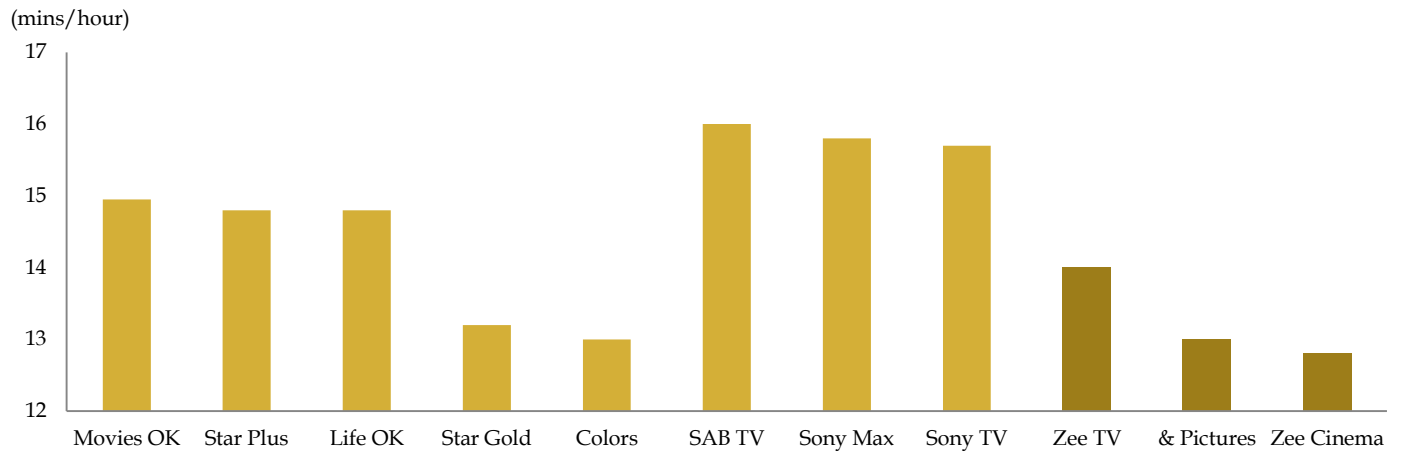
The Telecom Regulatory Authority of India (TRAI) released its first report on the average duration of advertising amongst pay channels. Data reveals that Zee is amongst the most disciplined broadcasters with prime-time advertising (alongwith self-promotional content) being under 14 mins/hour.

In the Hindi GEC/movie genres, among the large broadcasters, Star India and Multi Screen Media (which runs Sony TV), have prime-time ad times of ~15/16 mins/hour, while ZEEL’s advertising measures ~12-14 mins/hour.

In the regional space, viz. Marathi, Bengali, Kannada and Telugu, ZEEL’s advertising is under 14 mins/hour. This puts the company in good position, incase TRAI imposes advertising restrictions of 12 mins/hour (as discussed in our Sector Thematic, and is now sub-judice). In such a case where competitors are currently running greater advertising, the rate increases needed to offset the reduced inventory will be lower for ZEEL, thus allowing it to reap benefits of re-pricing of advertisements.

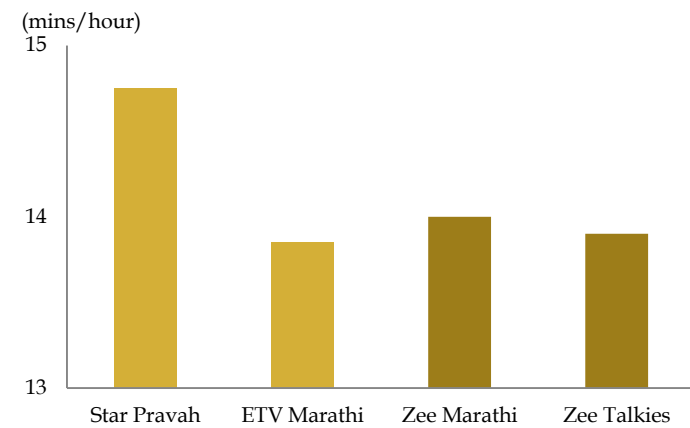
Alternatively, if TRAI doesn’t impose an advertisement time restriction, ZEEL, on account of its lower advertisement time/hour, is in a position to increase inventory and hence achieve faster advertisement revenue growth than peers.

Exhibit 4: Hindi general entertainment channels (GECs) and movies : prime-time (7PM-10PM) advertising (mins/hour)



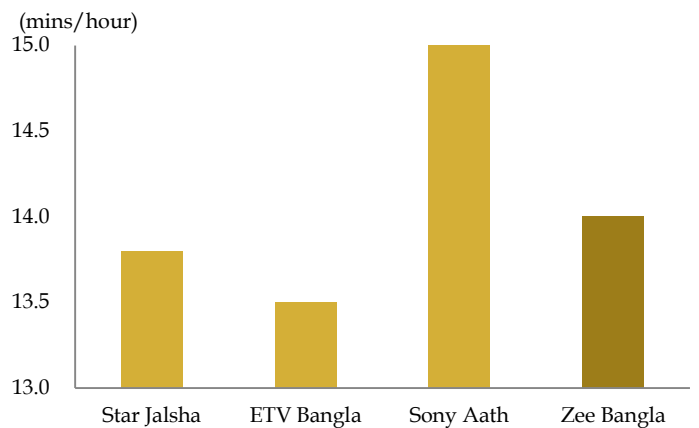
Source: Company, Trust

Exhibit 5: Marathi channels: Prime time advertising



Source: Company, Trust

Exhibit 6: Bengali channels: Prime time advertising



Source: Company, Trust

Financials

Income Statement (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Revenues	58,514	64,341	66,857	78,245	89,199
Op. Expenses	43,418	45,073	46,095	52,797	59,999
EBITDA	15,096	19,269	20,761	25,448	29,200
Other Income	2,016	2,240	4,404	2,690	2,990
Depreciation	840	1,152	1,821	2,372	2,636
EBIT	16,271	20,357	23,344	25,767	29,555
Interest	123	1,372	1,448	662	596
PBT	16,148	18,984	21,896	25,105	28,960
Tax	5,528	6,805	9,241	9,008	10,425
PAT	10,620	12,179	12,656	16,097	18,534
Minority	(22)	(5)	12	23	23
Ex. Ordinary items	331	(10,030)	(1,279)	433	-
Adj Pat	10,268	22,204	13,946	15,687	18,557

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (`)					
EPS	11.0	12.7	13.2	16.8	19.3
CEPS	11.9	13.9	15.1	19.3	22.1
BVPS	64.9	69.3	78.7	90.0	105.0
DPS	2.3	2.5	2.9	3.3	3.8
Payout (%)	23.9	23.1	25.7	22.3	22.7
Valuation (x)					
P/E	34.9	42.2	43.7	27.3	23.8
P/BV	5.9	7.7	7.3	5.1	4.4
EV/EBITDA	23.9	26.1	26.2	16.8	13.8
Dividend Yield (%)	0.6	0.5	0.5	0.7	0.8
Return ratio (%)					
EBITDA Margin	25.8	29.9	31.1	32.5	32.7
PAT Margin	18.1	18.9	18.9	20.6	20.8
ROAE	18.0	18.9	17.8	19.9	19.8
ROACE	27.6	28.2	27.6	27.7	27.9
Leverage Ratios (x)					
Long Term D/E	0.0	22.9	15.1	13.1	11.2
Net Debt/Equity	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)
Debt/EBITDA	0.0	0.8	0.6	0.5	0.4
Interest Coverage	132.3	14.8	16.1	38.9	49.6
Current ratio	3.4	4.6	4.1	4.2	4.3
Growth Ratios (%)					
Income growth	19.1	10.7	3.9	17.0	14.0
EBITDA growth	20.4	27.3	7.7	22.6	14.7
PAT growth	8.9	32.1	3.9	27.2	15.1
Turnover Ratios					
F.A Turnover x	10.1	10.2	9.9	11.0	13.0
Inventory Days	82	96	143	143	143
Debtors Days	83	75	77	78	79
Payable days	44	42	43	44	45

Balance Sheet (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	960	960	961	961	961
Reserves & Surplus	61,354	65,608	74,657	86,748	101,091
Total Shareholders Fund	62,314	66,568	75,617	87,709	102,052
Minority Interest	85	10	142	142	142
Non-current liabilities	308	15,136	14,340	14,518	14,656
Long term Borrowings	9	15,272	11,453	11,453	11,453
Deferred tax liabilities	(556)	(903)	1,996	2,053	2,053
Other LT liabilities & prov	854	767	892	1,013	1,151
Current Liabilities	15,678	17,750	21,197	23,867	27,123
Short-term borrowings	-	-	-	-	-
Trade payables	5,194	4,891	11,497	13,018	14,794
Other cur liabilities & Prov	10,484	12,860	9,700	10,849	12,329
Total Liabilities	78,385	99,465	111,297	126,236	143,973
Assets					
Non-current Assets	24,515	18,524	25,397	26,933	27,898
Fixed assets	5,810	6,301	6,786	7,112	6,877
Non-current investments	12,197	7,352	11,246	11,246	11,246
Long-term loans & adv	5,913	4,618	7,026	8,146	9,287
Other non-current assets	594	253	340	429	489
Current assets	53,870	80,941	85,900	99,302	116,074
Current investments	7,391	11,868	13,695	13,695	13,695
Trade receivables	13,245	13,059	15,365	18,007	20,528
Inventories	13,160	16,844	26,278	30,655	34,947
Cash & bank balances	9,733	25,116	9,345	12,292	19,045
Short-term loans & adv	8,810	4,771	2,428	2,787	3,177
Other current assets	1,532	9,283	18,788	21,866	24,683
Total Assets	78,385	99,465	111,297	126,236	143,973

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	16,148	18,984	21,896	25,105	28,960
Depreciation	816	805	4,720	2,428	2,636
Interest Exp	123	1,372	1,448	662	596
Others	(272)	9,950	1,423	(410)	23
CF before W.cap	16,816	31,112	29,487	27,785	32,214
Inc/dec in W.cap	1,112	3,589	17,825	8,874	7,826
Op CF after W.cap	15,704	27,522	11,662	18,911	24,387
Less Taxes	5,528	6,805	9,241	9,008	10,425
Net CF From Operations	10,175	20,717	2,421	9,903	13,962
Inc/(dec) in F.A + CWIP	2,284	1,643	2,306	2,698	2,400
(Pur)/sale of Investments	1,946	(368)	5,722	-	-
Others	(123)	(1,372)	(1,448)	(662)	(596)
CF from Invst Activities	(4,353)	(2,647)	(9,475)	(3,360)	(2,996)
Loan Raised/(repaid)	(3)	15,263	(3,820)	-	-
Equity Raised	(923)	(15,141)	(1,638)	0	(0)
Dividend	2,528	2,809	3,259	3,595	4,214
CF from Fin Activities	(3,454)	(2,687)	(8,717)	(3,595)	(4,214)
Net inc / (dec) in cash	2,368	15,382	(15,770)	2,948	6,753
Op. bal of cash	7,364	9,732	25,115	9,344	12,292
Cl. balance of cash	9,733	25,116	9,345	12,292	19,045



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